

WAIS Inc.

Wide Area Information Servers
690 Fifth Street
San Francisco , California 95107
415-356-5400
FAX 415-356-5444

FAX Cover Sheet

Date: April 19, 1995

To: Chris Younger
FAX: 415 496-4092
Phone: 415-493-9300

From: Mary McCall
FAX: 415 356-5429
Phone: 415 356-5444

Pages Transmitted (including cover sheet): 8

Chris,

Attached are Nick's "write-up" and my pencil markup of his comments. I am not finished yet but Nick suggested I send this to you now so that you can let us know if we are on the right track.

Regards,

*Several repeated sections.
why don't we shorten the document
by referring to previous answers?*

Schedule of Exceptions
4/19/95

2.6 Litigation.

There is a potential litigation action by WAIS to force recovery of a \$11,750 deposit given to Optimum Capital in conjunction with Optimum Capital seeking a \$250,000 lease line for WAIS.

With regard to contract # 92*N334305*000 Issued by John F. McCusker
There is a potential claim by a government agency (CIA) for a refund of
\$20,000 money paid in conjunction with work paid for but not done in 1993 dated 9/28/92
for ~~\$20,000~~ WAIS, INC. IN 1993.

2.7 WAIS Financial Statements.

Financial statements prepared by WAIS during calendar years 1993 and 1994 were done primarily on the cash basis for income tax and internal management purposes; this applies to all of the financial statements delivered to AOL for calendar years 1993 and financial statements through June 30, 1994.

WAIS began using accrual accounting methods as of July 1, 1994 but has not been audited. Several accounting practices which may not reflect GAAP are:

Revenue Recognition: Accounting for 1 year ^{support & maintenance} service contracts includes \$_____ of revenue which has been recognized as of the date the contract was signed has yet to be earned (recognized monthly over the term of the contract.) ~~Revenue for new service contracts has been recognized monthly since _____ and the Company plans to adjust FY1995 revenue to defer unearned revenue at the end of the fiscal year.~~

The revenue recognition for non-refundable fees invoiced for production services customers is recognized as of the customer commitment date, as evidenced by a signed contract or letter to proceed; although WAIS has discussed this revenue recognition policy with a representative of a Big Six accounting firm, the revenue recognition policy has not been audited.

Income tax liabilities are accrued ^{ON PRETAX INCOME} using a composite 44% rate. The rate calculation has not been reviewed for GAAP compliance.

2.8 Taxes.

WAIS has provided AOL only copies of state and federal tax returns. Copies of Information returns such as 1099 forms, payroll tax returns, personal property tax returns and sales tax returns have not been provided to AOL

Accruals for taxes reflect only an estimate of taxes which are liable based on current information and include no provision for potential tax deficiencies or penalties thereon which could be assessed after a tax audit by the applicable government agency. No tax audits have been done and none are scheduled.

Income tax liabilities are accrued ^{on net income before taxes} using a composite 44% rate. The rate calculation has not been reviewed for GAAP compliance and has not been reviewed thoroughly to reflect future tax returns.

No foreign tax returns have been filed. WAIS is not aware of any requirements to file foreign tax returns. The only significant revenue from a sale to a foreign entity was a \$100,000 sale to Fujitsu in 1994. The normal 10% Japanese withholding was deducted from the payment by Fujitsu.

2.9 Title to Properties.

WAIS has not done a review or inventory of the furniture, equipment and software capitalized on the WAIS Balance Sheet to adjust for possible losses of capitalized items or to reflect unusable furniture, equipment or software. ✓

WAIS is not aware of any violations of any zoning, building, safety or environmental ordinance, but has not done a review of local ordinances to insure compliance. ✓

2.10 Absence of certain changes.

(d) Material obligations.

Since the Balance Sheet Date, WAIS has entered into a lease arrangement for its current San Francisco facility. The lease calls for a \$11,000 per month obligation for approximately 2 1/2 years. In conjunction with the relocation to the new facility, WAIS has incurred expenses (paid or accrued) of approximately _____ together with deposits of _____.

2.11 Agreements and Commitments.

(a). Contractual commitments.

WAIS has a licensing agreement with Ensemble, whereby WAIS became obligated to pay minimum royalties of \$15,000 per month for a six month period commencing on 2/1/95. ✓

WAIS has an agreement with Dow Jones through which WAIS provided services to develop an Electronic Publishing System. Dow Jones may have the contractual right to terminate that contract and demand repayment of ✓

approximately \$100,000 paid to WAIS during the course of the contract period.

(c). Agreements by WAIS to sell rights with respect to WAIS Intellectual property.

Not printed right
(Fujitsu has been granted exclusive rights to sell WAIS software products in Japan and other markets. *for a period of 1 year.*)

Intel has been granted non-exclusive rights to sell WAIS software products for the Intel Platform.

This has been materially changed based on leaks over the
WAIS is negotiating a contract with ^RSPRY, a subsidiary of CompuServe, whereby SPRY will have the rights to bundle "downsized" version of the WAISserver product with SPRY products.

same as 2.10.0
(d) Lease of real property.

Since the Balance Sheet Date, WAIS has entered into a lease arrangement for its current San Francisco facility. The lease calls for a \$11,000 per month obligation for approximately 2 1/2 years. In conjunction with the relocation to the new facility, WAIS has incurred expenses (paid or accrued) of approximately _____ together with deposits of _____.

(e) WAIS has granted value added marketer distribution rights for WAIS software products to the following companies: *JAR*

(h) WAIS has arrangements with the following companies whereby the company will share revenues with WAIS for Electronic Publishing Systems developed jointly with the customers:

Dow Jones
The Sports Network
Others

(i) Indebtedness for amounts exceeding \$10,000.

WAIS is about to sign a line of credit agreement with Cupertino National Bank whereby the Bank will loan up to \$250,000 against approved accounts receivable as security plus up to \$75,000 secured by previously or to be purchased equipment.

check \$75,000 wording

(j) Contracts limiting WAIS freedom to compete:

Fujitsu has been granted exclusive rights to sell WAIS software products in Japan and other markets.

2.12 Intellectual Property.

Chris to write re Thinking Machines etc

2.13 Compliance with laws.

Why don't we just say we haven't.
WAIS is about to review requirements for compliance with laws, ordinances and regulations regarding such programs as OSHA safety regulations, Drug Free Compliance Programs, Fire Regulations, and other such areas, but has no such compliance programs in place and is not yet certain when such programs will be in place.

2.15 Employees.

2.15.1 Termination at will.

Edy Henderson, Vice President of Engineering, has a 90 day written notice requirement in here employment agreement regarding termination without clause. If she is terminated without cause during the first year of her employment, six months of stock option vesting will vest.

2.15.3. WAIS has the following "Employee Plans" in place:

Stock Option Plan

Medical Health Plan, premiums paid by WAIS

Vacation Policy (unwritten): 3 weeks of paid vacation per year(does not include sick time off)

2.15.5 Agreements with executives or key employees:

Edy Henderson, Vice President of Engineering, has a 90 day written notice requirement in here employment agreement regarding termination without clause. If she is terminated without cause during the first year of her employment, six months of stock option vesting will vest.

2.15.6 Current employees , officers and consultants:

	<u>Employee</u>	<u>Annual Compensation</u>	<u>Commission</u>	<u>Severance</u>
TD	Ajayebi, Tom	\$68,000		

OLD fm Aronson, Dan	\$60,000 ✓	
STD Brodesser, Norm	\$39,000 ✓	
OLD f. Cheaney, Dia	\$35,000	
Daugherty, Daryl	\$12 per hour	
Devarrene, Claude	\$58,000	
Duhring, John	\$80,000	
Esanu, Marion	\$56,000	
Gamberg, Vivtoria	\$30,000	
Garrett, Kevan	\$45,000	
Gilliat, Bruce	\$60,000	Yes
Graff, Peter	\$81,600	
Greer, Pat	\$80,000	
Gunawardena, Dilip	\$83,000	
Henderson, Edy	\$100,000	Yes
Innis, Cynthia	\$25,000	
Kahle, Brewster	\$105,000	
McCall, Mary	\$60,000	
Miller-Riley, Cyndy	\$48,000	Yes
Morris, Harry	\$75,000	
Oliveau, Kevin	\$60,000	
Scharf, Nick	\$80,000	
Steinberg, Larry	\$48,000	Yes
Sweat, John	\$55,000	
Syme-Hall, Meikle	\$55,000	
Toomey, Toomey	\$70,000	
Tuthill, Will	\$57,000	

Consultants

Team Alliance (Patricia Klauer): \$6,000/ month plus bonus *Robert*

Margaret Saint-Pierre - not to exceed \$16,400 thru 5/31/95

Patricia Klauer (of Team Alliance) - agreement to provide contract consulting services for three months at a "retainer rate" of \$6,000 per month together with a bonus of up to \$9,000, based upon number on new employees recruited and working by June 30, 1995.

Margaret Saint-Pierre is providing consulting support for 239.50 projects through 5.31.95, hourly rate of 38.58 not to exceed 16,400.00

2.19 Books and Records.

2.19.1 Maintenance.

Books records and accounts support WAIS Financial Statements and reflect changes in accounting practices made in 1994:

Financial statements prepared by WAIS during calendar years 1993 and 1994 were done primarily on the cash basis for income tax and internal management purposes; this applies to all of the financial statements delivered to AOL for calendar years 1993 and financial statements through June 30, 1994.

WAIS began using accrual accounting methods as of July 1, 1994 but has not been audited. Several accounting practices which may not reflect GAAP are:

Revenue Recognition: Accounting for 1 year service contracts includes \$_____ of revenue which has been recognized as of the date the contract was signed has yet to be earned (recognized monthly over the term of the contract. Revenue for new service contracts has been recognized monthly since _____ and the Company plans to adjust FY1995 revenue to defer unearned revenue at the end of the fiscal year.

The revenue recognition for non-refundable fees invoiced for production services customers is recognized as of the customer commitment date, as evidenced by a signed contract or letter to proceed; although WAIS has discussed this revenue recognition policy with a representative of a Big Six accounting firm, the revenue recognition policy has not been audited.

Income tax liabilities are accrued using a composite 44% rate. The rate calculation has not been reviewed for GAAP compliance.

2.19.2 Internal accounting controls.

Internal controls do not include adequate separation of duties because of the limited number of employees. The Corporate Controller maintains accounting records, obtains approval for invoices to be paid, prepares checks, signs checks and reconciles the bank accounts.

2.20 Insurance.

WAIS does not have business interruption coverage.

Mary to check policy re coverage including product liability etc. in agreement.

2.22 Federal and State Government Contracts.

Mary and Chris plus discussion with Kevin O.